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Global Competitiveness : the Real Issues and How to Address them

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Origin and expansion of cashew cultivation

- ❑ Origin : North of Brazil.
- ❑ 15th century in West Africa, East Africa, India and South West Asia (Indonesia, Philippines, Thailand, etc.).
- ❑ 1920, production and semi-industrial processing in the Goa region in India/ commencement of trade between India (exporter) and the United States of America (importers).
- ❑ 1950 industrial processing in India, Brazil and East Africa (Mozambique, Tanzania and Kenya) / high rate of consumption in the United States and Europe.
- ❑ 1957, intensification of its cultivation in West Africa to stem desertification



1980 : crucial year

Decline and collapse of the industry in East Africa :

- Ageing of plantations,
- Loss of competitiveness of the local processing industry,
- Dramatic liberalization of the industry in Mozambique.
- India massively increased its market share** and developed a powerful processing industry, thus the need for raw materials at all times and this made India develop an interest in the West African market.
- Development of **production in a new region in the world : West Africa**



Origin and expansion of cashew cultivation





Harvesting period for cashew and average yields

- Producer countries North of the Equator (80 % of production) Nigeria – Benin - Ghana - Côte d'ivoire - Burkina Faso – Mali - Guinea – India - Vietnam - Cambodia - Guinea Bissau - Gambia – Senegal and harvesting generally takes place from February to May.
- Producer countries in the Southern hemisphere (20%) Indonesia – Brazil – Tanzania - Kenya – Mozambique; harvesting between September and December.
- **A large proportion of raw cashew supply is therefore harvested in the the early part of the year.**
- **The quantity of harvests in the Northern hemisphere determines the availability of the product for the year.**
- The yields depend on the varieties, the conditions under which the farms are maintained and the age of the farms.
- Better yields per hectare : 2 tons /Ha (India, Vietnam and Brazil)
- West Africa, (between 600 kg and 1ton /Ha) (age between 15 and 25 years).
- **Climatic factors** : . Regular rains (between June and October) and temperatures that are not too high (between 20 and 34 °C) during the dry season (between December and May).





What is sold and what qualities are required?

Raw cashew nut and its qualities :

- **Graining** : 160 (big nuts) and 240 (very small nuts).
Defect rate : higher than 15%, the batch is rejected
Kernel yield or KOR (Kernel Output Ratio) It is the most important indicator. The KOR normally varies between 42 and 56 lbs (0.45 kg) .
- **Moisture content** : must be lower than 10% if not the cashew batch will be quickly destroyed. It must be higher than 5% otherwise the processing of nuts will be very difficult.

Cashew kernel : Its quality is based mainly on 3 benchmarks : the size of the kernels, the color and the damage caused to them during the processing. One can make more than 24 grades of cashew kernels.

Cashew apple Very juicy pseudo fruit, very sugary and very rich in vitamins. Only **Brazil** consumes about 20% of its production.

Cashew nut balsam or CNSL (Cashew Nut Shell Liquid)

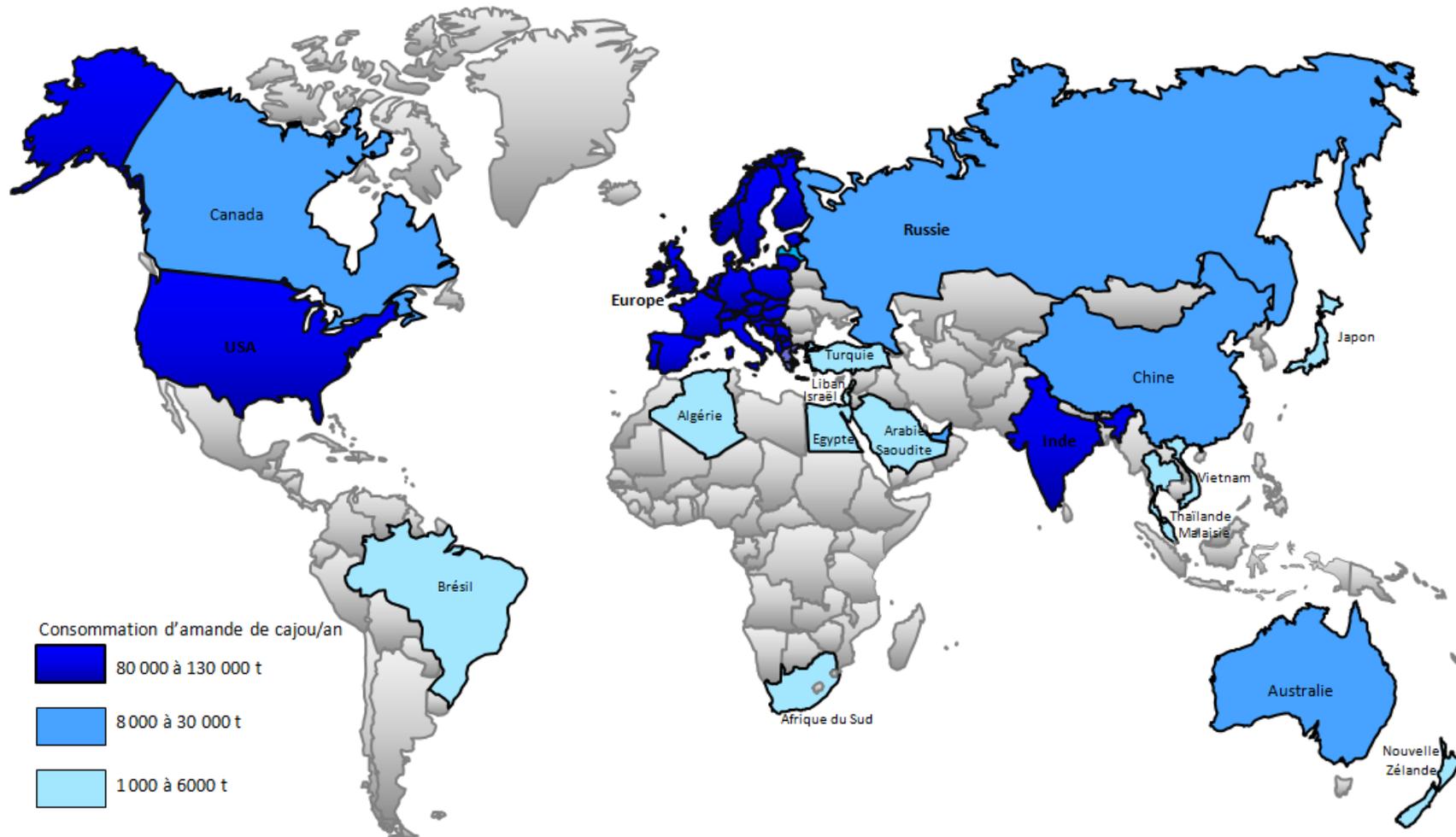
- To ensure that its extraction is profitable, there must be large quantities of shells. To the extent that only very large industrial plants in **Brazil, India and Vietnam can process** it.

Cashew nut shells The shell of the nut is a processing by-product generally used as fuel.





Cashew nut consumption areas in the world





Period of consumption



Chine, Asie du Sud-Est
Nouvel An Chinois



Asie et Afrique du Nord
Ramadan
(Dates variables)



Inde
Diwali



USA – Europe
Noël/Nouvel An





Competing products : Main nuts

Les principaux Fruits à coque :

1) **L'amande** : production mondiale = environ 1 400 000 T (décortiquées)

- Arbre : amandier

- Anglais : *almond*

- Principaux lieux de production : USA, Syrie, Iran, Espagne



2) **La pistache** : production mondiale = environ 550 000 T (décortiquées)

- Arbre : pistachier

- Anglais : *pistacho*

- Principaux lieux de production : Iran, USA, Turquie, Syrie



3) **L'anacarde** : production mondiale = environ 500 000 T (décortiquées)

- Arbre : anacardier

- Anglais : *cashew*

- Principaux lieux de production : Inde, Côte d'Ivoire, Vietnam, Brésil



4) **La noix** : production mondiale = environ 450 000 T (décortiquées)

- Arbre : noyer

- Anglais : *walnut*

- Principaux lieux de production : Chine, USA, Iran, Turquie, Inde



5) **La noisette** : production mondiale = environ 350 000 T (décortiquées)

- Arbre : noisetier

- Anglais : *hazelnut*

- Principaux lieux de production : Turquie, Italie, USA



6) **La noix de pécan** : production mondiale = environ 50 000 T (décortiquées)

- Arbre : pacanier

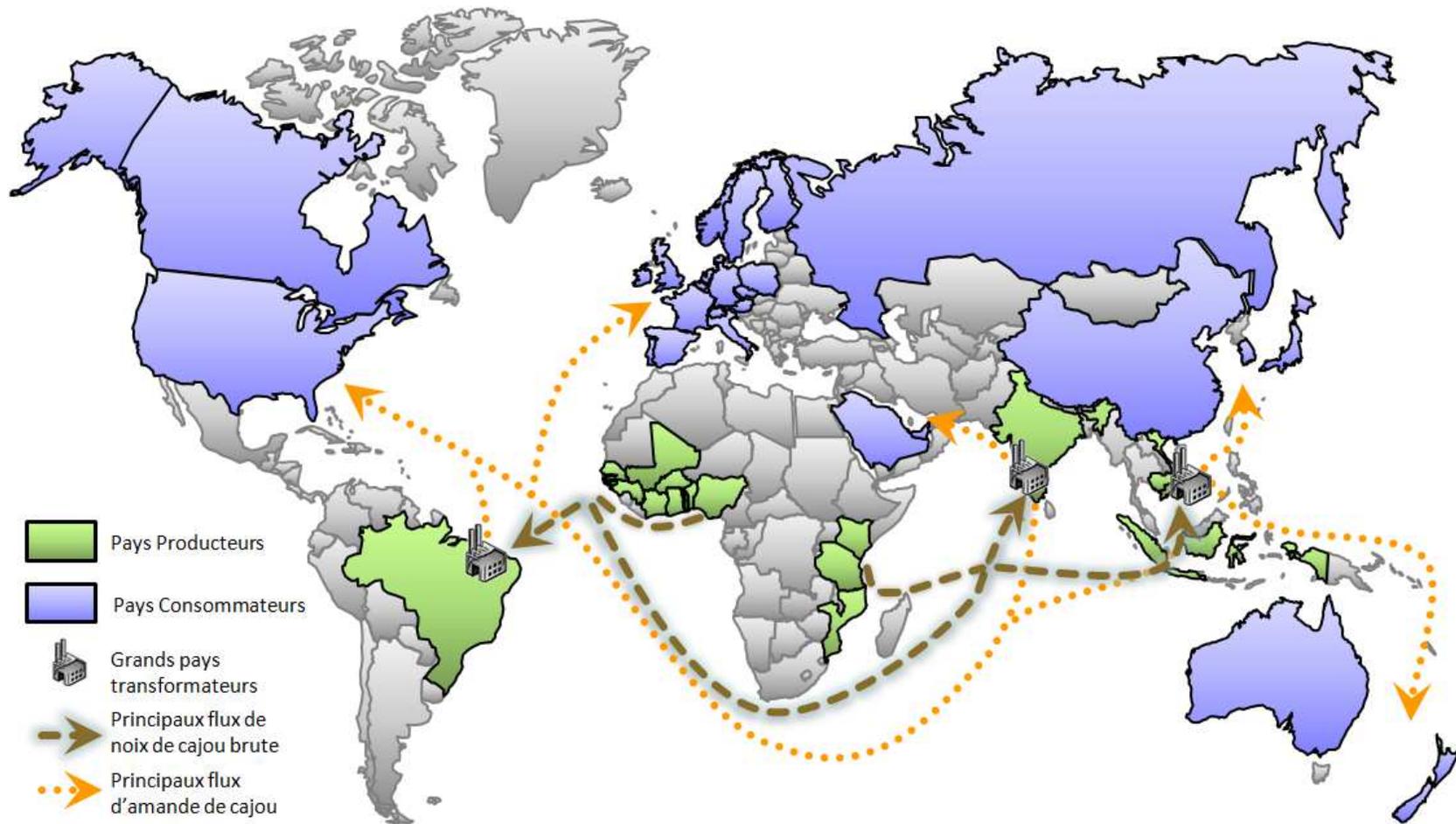
- Anglais : *pecan*

- Principaux lieux de production : USA, Mexique





Cashew nut trade





Market

- ❑ **East Asia** is indisputably the hub of the international cashew trade.
- ❑ Why ?
- ❑ Cultivation and processing adapted to family farming on small agricultural land holdings and in locations where labour cost is quite minimal (South East Asia and particularly in Vietnam and Southern India).
- ❑ **Choice of agricultural policy leading to a strategic sector since the 1960's in India and since the 1990's in Vietnam.**
- ❑ **Structuring and developing the sector.**
- ❑ **Important plant breeding policies and supervision of production**
- ❑ **Specific credit policy enabling processing units to access borrowing facilities for their investments and supplies**
- ❑ **Trade policy promotes imports of raw cashew but limits the importation of almonds in order to protect the local industry.**
- ❑ **The region still has lots of lands suitable for the expansion of cashew cultivation**



Raw cashew nut market

- ❑ Africa leads the world market in the area of export of walnuts in shell: 10 leading world exporters; only 1 Asian country : Indonesia.
- ❑ Côte d'Ivoire, leading producer and exporter (More than 70% of its production and more than 30% of global exports)
- ❑ Vietnam, India or Brazil export only a small fraction (less than 1%) since they prioritize its processing in order to export the cashew kernels.
- ❑ **A greater proportion of the raw cashew nuts from the West African sub-region is exported to India and Brazil where it is processed, then, either consumed locally or sent to the United States or Europe.**
- ❑ **In India, Vietnam and Brazil, every component of cashew is used or processed to generate additional income (the cashew nut, the skin inside the shell, the liquid inside the skin and the outer part of the shell)**



Marketing channels and prices

- ❑ Exports in the ECOWAS sub-region are handled by trading companies and licensed producer cooperatives.

- ❑ **Saturday 13 February 2016** : As announced on Wednesday 10 February 2016 by a Government spokesperson of a West African country at a Council of Ministers meeting, the prices fixed for the 2016 cashew marketing year which started on Monday 15 February are as follows :
 - ❑ The farm-gate price is 350 CFA francs per kilogram ,
 - ❑ The mandatory floor price at the domestic warehouse is 375 FCFA per kilogram
 - ❑ The mandatory floor price at port warehouse is fixed at 432 CFA francs.

But around June 2016, prices escalated dramatically to 750 francs per kilo. What happened and upon which bases were the prices determined?



Factors relating to prices

Since cashew nut is a relatively expensive and “non essential” it is sensitive to economic conditions and must be regulated according to the rules of supply and demand. The following are some of the factors which have serious effects on prices :

- ❑ Levels of production
- ❑ Value of the American dollar upon which the price is based.
- ❑ Fall of the euro vis-à-vis the dollar, the reference currency for trade
- ❑ Increase in world prices could be severely compounded by the devaluation of the main currencies in the sub-region (Ghanaian Cedi, Nigerian Naira, Guinean Franc and the Gambian Dalasi), which would enable the producers to obtain all time record prices compared to the past.
- ❑ Port congestion : purchases will be limited on a daily basis and prices will continue to drop in the production areas as a result of lack of carting of products and sufficient storage conditions.
- ❑ The understanding of buyers for the product to become limited in order to put psychological pressure and compel the producers and the traders who would still be holding some products.



Factors relating to prices (cont'd)

- Level of Indian, Brazilian and Vietnamese orders
- Level of production on the part of largest producers
- Demand which increases more rapidly than supply, thus forcing an increase in the price of cashew,
- Trade which can be oriented towards better quality cashew nuts.

- The situation of congestion at the port can significantly reflect in a price decline all over the country

- Forecasts of a good harvest in India with record production estimates may explain the low attraction for Indian importers for the West African raw cashew nuts, thus causing a drop in prices; the latter will first prioritize their local production.
- Climatic factors such as drought observed from the beginning of 2015 in California, one of the main cashew and pistachio production regions (substitute products for cashew); this compelled manufacturers of the industry to buy more cashew.
- Rainy season or abnormal dry season**
- Demand periods of large consumers



Factors relating to prices (cont'd)

- ❑ An economic crisis may affect processing plants and exporters of a major producer facing issues such as limited quantity of supplies, prohibitive costs of local raw cashew nuts and increasing scarcity of financing, which situation will negatively impact on their purchases in West Africa.
- ❑ A country may be confronted with a situation of glut in the supply of raw nuts as compared to international demand, this will lead to a fall in prices.

With regard to walnuts, the factors to be considered are :

- ❖ An increase in the cost of transportation,
- ❖ An ever increasing high quality standards required including high demand.



Shelled nuts market and the issue of processing

- ❑ International trade in cashew nut kernels accounts for a much lower tonnage than that of raw cashew nuts : **almost two times less.**
- ❑ However, its value is by far much more. Indeed, the unit value of cashew nut shells in 2011 was 1900 dollars per ton whereas that of shelled cashew nut was 7560 dollars per ton.
- ❑ By processing raw cashew nuts, **Vietnam, India and Brazil enjoy a greater share of** added value of the product.
- ❑ ECOWAS exports only a very small quantity of shelled cashew nuts. Indeed, its exports accounted for 1.5% of global exports in 2012 and were solely meant for markets outside the region.
- ❑ The processing industry within ECOWAS member countries is still very limited. Indeed, the countries are confronted with difficulties in developing this activity because of the lack of technical know-how, lack of suitable equipment and difficulty in complying with some food security regulations.
- ❑ Some new local processing units have been opened in several West African countries in recent years.



Shelled nuts market and the issue of processing

- ❑ By tradition, India is among the leading importing countries in the world of unshelled raw cashew nuts since it has specialized in its shelling for several decades now . As a result, it has a very great influence on the international market regarding this raw material.
- ❑ Among the **leading exporting countries of unshelled cashew nuts**, one can mention Vietnam, India, Brazil which are among the major world producers of cashew.
- ❑ The Netherlands, however, plays the role of trade hub by importing processed nuts and re-exporting them to other European countries.
- ❑ The export of unshelled cashew nuts has for quite a long time been an Indian activity. However, for almost ten years, the exponential increase in Vietnamese production and the explosion of its exports makes Vietnam a huge competitor. These two countries account for about 75% of the world market in terms of unshelled cashew nuts.
- ❑ African countries hardly take part in world exports of shelled cashew nuts. Indeed,, they mainly export raw cashew nuts and there are just a few processing plants.



The competitors of African countries and their strengths (cont'd)

- ❑ 1920, semi-industrial production and processing in the Goa region of India / Inception of trade between India (exporter) and the United States of America (importers).
- ❑ 1950 industrial processing in India, Brazil and in East Africa (Mozambique, Tanzania and Kenya) / Exponential growth in consumption in the United States and in Europe.
- ❑ **Cashew apple** Highly juicy pseudo fruit, very sugary and very rich in vitamins. Only **Brazil** consumes about 20% of its production.
Cashew balsam or CNSL (Cashew Nut Shell Liquid)
In order to ensure that the extraction is profitable, there must be very large quantities of shells. To the extent that only very large plants in **Brazil, India and Vietnam** process it.
- ❑ Vietnam, India or Brazil export only a small fraction (lower than 1%) because they prioritize the processing of nuts to be able to export the shelled nuts.

- ❑ **The large majority of raw cashew nuts in the West African sub-region is exported to India and Brazil where they are processed, then, either consumed locally or exported to the United States or Europe.**



The competitors of African countries and their strengths (cont'd)

- ❑ In India, Vietnam and Brazil, each constituent element of cashew is used or processed to generate additional income (nuts, the skin within the shell, the liquid inside the skin and the external skin)
- ❑ Best yields per hectare: 2 tons /Ha (India, Vietnam and Brazil)
- ❑ Cultivation and processing suitable for family farming on small land holdings and in areas where labor cost is cheap (South-East Asia, especially in Vietnam and Southern India).
- ❑ Choice of agricultural policy leading to a strategic sector from the 1960's in India and the 1990's in Vietnam.
- ❑ Structuring and developing the industry.
- ❑ Important policies regarding plant breeding and supervision of production
- ❑ Specific credit policy to enable processing units to access credit facilities for their investments and supplies
- ❑ Trade policy promotes imports of raw cashew nuts but limits imports of cashew kernels in order to protect the local industry.
- ❑ The region still has large tracts of land for the expansion of cashew cultivation



The competitors of African countries and their strengths (cont'd and end)

- ❑ India, is a major producer, processor and consumer of this nut used in the kitchen and for cosmetics.
- ❑ Until now, the shelling was monopolized by **India**, known for its tens of thousands of women who shell the nuts in the States of KERALA, ANDHRA PRADESH, KARNATAKA AND MAHARASHTRA.



The competitors of African countries and their strengths (cont'd)

- ❑ By processing the raw cashew nut, **Vietnam, India and Brazil enjoy** a greater part of the added value of this product.
- ❑ By tradition, India is among the leading importing countries of unshelled raw cashew nuts since it has specialized in shelling over several decades. As a result, it has a very huge influence on the international market regarding this raw material.
- ❑ Among the **leading exporting countries of unshelled cashew nuts**, one can mention Vietnam, India and Brazil, which are also among the major world producers of cashew.
- ❑ Regarding the Netherlands, they play the role of a trade hub by importing processed nuts and re-exporting them to other European countries.
- ❑ The export of shelled cashew nuts, has been an Indian activity for quite a long time. However, for almost ten years, the exponential increase in Vietnamese production and the explosion of its exports make Vietnam a huge competitor. These two countries account for almost 75% of the global export market of shelled cashew nuts.
- ❑ India and Vietnam enjoy immense natural benefits of scale, experience and also of local and regional markets in the area of production, a developed market for low quality by-products, skilled, abundant and rapidly growing labor force and a locally-developed cost-effective technology



How does one become competitive?

- ❑ Produce at lower prices than one's competitors for an equivalent quality. Produce a supply at cheaper costs than those borne by companies in the same sector.

This will depend on: relative levels of costs of production, margins of producers and levels of exchange rates of exporting companies...

- ❑ Impose our products irrespective of their price (quality, innovation, after-sales services, corporate identity, delivery schedules, capacity to adapt to diversified demand, etc.). This is based on the perception of the supply by the clients, a perception which is itself developed over a long period of time depending on the satisfaction obtained by the client in the past. It also requires lots of investments in order to develop and maintain the specificity of the supply.

For this reason, there is the need for quality, innovation and reputation

- *Sustainability*
- *Carbon credits*
- *Platform*
- *West African Label*
- *Specific Training*



How does one become competitive?

- ❑ Seriously explore new markets : Eastern Europe including Russia, Oceania (Australia, New Zealand), China, Brazil, South-East Asia (Vietnam, Thailand, Malaysia), and the Middle East (United Arab Emirates, Saudi Arabia, Lebanon, Israel), the Maghreb, West Africa including Nigeria
- ❑ Develop processing in West Africa – The strengths/benefits:
 - Creation of local value-added ;
 - Employment creation, particularly for women; stemming of rural exodus by developing opportunities in the rural communities ;
 - Developing ancillary services : transportation, packaging industry, developing by-products, brandings...
- Taking into account :
 - Important needs and initial investments ;
 - Important needs regarding working capital ;
 - Long periods of apprenticeship : period of training of personnel, two to three years to attain the hourly productivity rates pertaining in Asia, loss of quality and value of the product in the apprenticeship phase, lack of skilled supervision staff ;
 - Capacity to obtain sufficient quantities of quality raw cashew nuts ;